BRITISH COLUMBIA LOTTERY CORPORATION

ANNUAL REPORT 1998-1999

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LETTER OF TRANSM

Minister Responsible for

British Columbia Lottery Corporation

Dear Minister:

British Columbia Lottery Corporation experienced another year of significant growth and accomplishments in fiscal 1998/99. Revenues reached a record $1.26 billion, translating into a record net income return of $456 million, of which $449 million was distributed to the Government of British Columbia and $7 million to the Government of Canada.

On behalf of the Corporation, I respectfully submit the Annual Report for fiscal year ended March 31, 1999.

Patrick Chen

Chair, Board of Directors

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Mission Statement

As the major advocate on **gaming policies** and the principal operational agency of commercial gaming within the jurisdiction of British Columbia, the Corporation will **contribute significantly** to government revenues and **economic growth** through providing **top-quality gaming entertainment** to the public in a socially responsible manner.

CORPORATE OBJEC

- To maximize gaming revenue to the Province of British Columbia
- To operate the Corporation in the most effective and efficient manner possible
- To be recognized as a responsible, trustworthy and progressive Corporation, and to achieve strong and broad-based public support of the Corporation's mandate
- To have the best retailer networks in the Province of British Columbia to serve and meet the needs of our players
- To foster an organizational climate that welcomes and values diversity within the organization and through the services it provides to the public and its retailers
- To seek to ensure that every employee is valued, professionally fulfilled and feels that they play an integral role in the success of the Corporation

FROM THE PRESIDENT

FISCAL 1998/99 WAS A YEAR OF CHANGE, CONTROVERSY AND OPPORTUNITY FOR BRITISH COLUMBIA LOTTERY CORPORATION (BCLC) AS IT MET THE CHALLENGES OF THE EVOLVING GAMING INDUSTRY IN THE PROVINCE.

BCLC continues to successfully manage increased responsiblities. In addition to operating the well-established lottery gaming business, marking its 25th year of sales in British Columbia in 1999, the Corporation became fully responsible for all casino gaming and electronic and linked bingo. Employment opportunities

were created and qualified staff were recruited and trained to meet the new business needs.

The forecast for another year for record sales and profits exceeded expectations. A memorable milestone was reached when the Corporation passed the $1 billion mark in annual revenues, eventually reaching $1.26 billion by year's end. After prizes, retailer commissions and expenses were paid, a record $456 million in net income was generated.

While successes were many, the Corporation was affected by growing public debate related to gaming policies. The Corporation will devote its energy to regaining the status of the high public approval rating of years past by continuing to earn the respect of players and citizens of British Columbia.

Fiscal 1999/00 calls for defined direction, focus and structure in the expanded business environment, and readiness for the new millennium and beyond. Among its key objectives, the Corporation will strive to enhance the player experience and hence the causes that benefit from the proceeds of gaming in British Columbia.

Guy Simonis

President

OVERVIEW

PURSUANT TO AMENDMENTS TO THE CRIMINAL CODE OF CANADA IN 1969 AND ENABLING LEGISLATION, BRITISH COLUMBIA LOTTERY CORPORATION (BCLC) WAS INCORPORATED ON OCTOBER 25, 1984, AND IS CONTINUED UNDER THE LOTTERY CORPORATION ACT OF BRITISH COLUMBIA (1985). PRIOR TO 1985, THE PROVINCE OF BRITISH COLUMBIA WAS A PARTNER IN THE WESTERN CANADA LOTTERY FOUNDATION.

AS AN AGENT OF THE CROWN, BCLC IS THE DESIGNATED AUTHORITY TO CONDUCT AND MANAGE LOTTERY SCHEMES WITHIN BRITISH COLUMBIA, INCLUDING THE MARKETING OF NATIONWIDE AND REGIONAL LOTTERY GAMES IN ASSOCIATION WITH OTHER PROVINCES OF CANADA.

BCLC experienced significant change when it entered the casino gaming market under the Government of British Columbia's new gaming policies announced in 1997 and 1998. In addition to the responsibility to conduct and manage slot machines and electronic and linked bingo, in fiscal 1998/99 the Corporation assumed responsibility to conduct and manage all casino gaming as of June 1.

In fiscal 1998/99 annual revenues from the three business segments - lottery gaming, casino gaming and bingo gaming - exceeded $1 billion for the first time, reaching $1.26 billion by fiscal year-end. Net income of $449 million was paid to the Government of British Columbia and a further $7 million to the Government of Canada.

Lottery, the most established business segment, contributed the majority of the fiscal 1998/99 revenues at 72 per cent. Casino gaming contributed 25 per cent and electronic and linked bingo gaming three per cent. Lottery retailers and casino and bingo service providers earned commissions totalling $175.5 million.

Lottery sales revenues reached $910.7 million. Throughout the province, 2,400 Lottery Ticket Centres sell the full range of lottery products. An additional 1,200 locations form the social gaming network in adult social settings, offering Club Keno and Breakopen (pull-tabs) in about 700 Club Keno Korners and Breakopen only in the remaining locations.

Sales performance was strong from Lotto 6/49, BC/49 and Extra, but lower than expected from Scratch & Win, Sports Action and Special Event.

Club Keno revenues increased to more than $100 million in the social gaming network. However, Breakopen experienced a $16.6 million decrease in revenues.

In 1997, changes in Government gaming policy authorized the Corporation to introduce slot machines into British Columbia's existing charitable casinos, with net income to be shared between Government and licensed charities.

In 1998, in order to establish a stronger legal framework for casino gaming in the province, the Government of British Columbia transferred the responsibility for casino table gaming to BCLC, making BCLC responsible to conduct and manage all casino gaming in the province.

By the end of fiscal 1998/99 there were 16 community casinos in operation, including eight with slot machines.

Revenues from slot machines and table games are recorded net of prizes paid out. Casino revenues in fiscal 1998/99 were $308.1 million, finishing ahead of budget by $28.1 million. Of the total, slot machines accounted for $146.8 million and table games for $161.3 million.

About one third of all casino net income generated from the operation of slot machines and casino table gaming is used to assist in the funding of the Government's guarantee of a minimum of $125 million annually to charities from gaming.

As well as being the sole distributor of bingo paper to bingo halls, BCLC is responsible to conduct, manage and operate electronic bingo products in the province.

SuperStar Bingo (linked bingo) completed its first full year of operation in October, and Starship Bingo (electronic bingo) expanded from one to eight sites during the fiscal year. Total bingo revenues of $42.7 million were $1.8 million less than budget and $24.6 million greater than the previous fiscal year.

BCLC returned to lottery and bingo players a record amount of prizes in fiscal 1998/99, with winners claiming $508.2 million. In total, there were 26 winners in British Columbia of $1 million or greater, including 16 millionaires on Lotto 6/49, nine on BC/49 and one group of seven who shared an $8.5 million prize on the nationwide game Lotto Super 7, which launched November 1 in British Columbia.

During the year, almost 62 million lottery prizes were won in British Columbia. Top prize of the year was paid to a Merritt resident who claimed $14 million on Lotto 6/49. She shared the windfall with her two daughters.

Lottery retailers pay prizes up to $200 and may, at their discretion, pay prizes up to $3,000. Players can also claim prizes by sending their tickets to BCLC or appearing in person at one of the three offices.

In 1999, BCLC is celebrating the 25th anniversary of lotteries in the province. As the next century prepares to unfold, fiscal 1999/00 is anticipated to be a year of stabilization in a varied gaming marketplace.

Objective:

To maximize gaming revenue to the Province of British Columbia

Result:

In fiscal 1998/99, British Columbia Lottery Corporation (BCLC) generated net income of $456 million, $21.1 million greater than budget and $165.7 million greater than fiscal 1997/98. Of this, $449 million was distributed to the Government of British Columbia, including payments pursuant to ministerial direction and payments to the British Columbia Charitable Gaming Funding Society.

The increase in net income over fiscal 1997/98 reflects additional income generated from expanded gaming initiatives – slot machines, table games and electronic bingo.

Total revenues of $1.26 billion were $11 million greater than budget and $319.3 million greater than fiscal 1997/98. Continued growth in casino operations, strong performance from Lotto 6/49, BC/49 and Extra, and the introduction of Lotto Super 7 and Mega Millions 2000 resulted in overall revenue growth of 33.9 per cent over the previous year.

Lottery sales revenues of $910.7 million were $15.3 million less than budget and $27.3 million greater than fiscal 1997/98. Lower than expected revenues from Scratch & Win, Sports Action and Special Event were partially offset by strong performance from Lotto 6/49, BC/49 and Extra, and the introduction of the nationwide game Lotto Super 7.

Casino revenues of $308.1 million were $28.1 million greater than budget and $267.4 million greater than fiscal 1997/98. Fiscal 1998/99 was the first complete year of slot machine operations in British Columbia. The Corporation generated slot machine revenues of $146.8 million through the operation of 1,730 slot machines in eight locations throughout British Columbia.

On June 1, 1998, the Corporation assumed responsibility to conduct and manage table games in British Columbia. In 10 months of operation, the Corporation generated table game revenues of $161.3 million in 16 different casinos.

Bingo revenues of $42.7 million were $1.8 million less than budget and $24.6 million greater than fiscal 1997/98. The increase reflects the operation of SuperStar Bingo for a complete year and the expansion of Starship Bingo from one to eight sites.

Objective:

To operate the Corporation in the most effective and efficient manner possible

Result:

Direct expenses related to the sale of gaming products – prizes, retailer commissions, ticket printing – represent more than 85 per cent of the Corporation's total expenditures. Direct expenses of $699.1 million were $2.7 million less than budget and $127.7 million greater than fiscal 1997/98.

Prize payments represent the Corporation's single largest expenditure. In fiscal 1998/99 the Corporation paid out prizes of $508.2 million, $25.1 million greater than fiscal 1997/98. The increase reflects additional prize payments for an increase in lottery and bingo sales of $51.9 million.

Retailer commissions represent one of the Corporation's largest expenditures. Cost containment is a major goal, but the Corporation also has the objective of ensuring that lottery retailers and casino and bingo service providers are fairly remunerated for their services.

In fiscal 1998/99, the Corporation paid out commissions of $175.6 million, an increase of $103.5 million over fiscal 1997/98. The increase reflects the expansion of casino and bingo operations. A breakdown of commissions paid to lottery

retailers and casino and bingo service providers is as follows:

	Fiscal 1998/99	Fiscal 1997/98
Lottery retailers	$ 59.9	$ 58.7
Casino service providers	110.5	11.4
Bingo service providers	5.2	2.0
	$175.6	$ 72.1

Operating expenses, which include administration, operations, amortization, Goods and Services Tax, interest and other income, represent about 13 per cent of total costs.

Operating expenses of $106.4 million were $7.3 million less than budget and $25.9 million greater than fiscal 1997/98. The increase reflects additional costs to manage and conduct expanded gaming operations, including slot machines, table games, electronic bingo and linked bingo.

BCLC operates an online lottery game system that is available for sales from 6 a.m. to midnight daily except December 25. In fiscal 1998/99, the Corporation generated online sales of $612.3 million through a network of more than 3,100 lottery retailers. Online game availability for fiscal 1998/99 was 99.99 per cent, compared to the target of 99.5 per cent and 99.99 per cent in fiscal 1997/98.

Objective:

To be recognized as a responsible, trustworthy and progressive Corporation, and to achieve strong and broad-based public support of the Corporation's mandate

Result:

Through an external research agency, BCLC tracks the public's attitude toward the Corporation. The Corporation's public acceptance rating was 45.9 per cent, compared to the target of 60 per cent and 47.6 per cent in fiscal 1997/98. It is likely that the Corporation's public acceptance rating was negatively affected by the controversy and high public profile associated with the change in gaming policy last year.

BCLC measures the public's participation rate in lotteries. Through a random survey, adults are asked if they have played any lottery games in the previous 30 days. The public participation rate for fiscal 1998/99 was 66.9 per cent, compared to the target of 65 per cent and 64.7 per cent for fiscal 1997/98.

BCLC measures per capita income by dividing the Corporation's total income by the number of residents over the age of 18 living in British Columbia. Per capita income of $148.10 was $6.90 greater than budget and $52.60 greater than fiscal 1997/98. The increase reflects the introduction of table games, slot machines, electronic bingo and linked bingo.

The Corporation also advances the objective by providing part-time and full-time employment opportunities for youth under the age of 25. In fiscal 1998/99, the Corporation hired 72 employees under the age of 25, which is 33 more than in fiscal 1997/98. Employment opportunities have been created through expanded gaming initiatives.

Objective:

To have the best retailer networks in the Province of British Columbia to serve and meet the needs of our players

Result:

The Corporation has a comprehensive selection process and training program for lottery retailers. By tracking customer satisfaction, this provides a measure of the effectiveness of retailer recruitment and training programs. Customer ranking of retailer services for fiscal 1998/99 was 92 per cent, compared to the target of 90 per cent and the ranking of 93 per cent for fiscal 1997/98.

By evaluating retailer satisfaction, BCLC measures the effectiveness of its retailer programs, including sales support, technical assistance, product order and delivery, training, accounting, marketing support and retailer incentives. Retailer satisfaction for fiscal 1998/99 was 95 per cent, compared to the target of 90 per cent and 94 per cent in fiscal 1997/98.

Objective:

To foster an organizational climate that welcomes and values diversity within the organization and through the services it provides to the public and its retailers

Result:

BCLC measures the number of applicants from designated equity groups – women, people with disabilities, aboriginal Canadians and visible minorities – for internal and external job postings. In fiscal 1998/99, the Corporation received 4,296 job applications, of which 2,191 were from the designated equity groups. BCLC hired 218 new employees, of which 120 were from the designated equity groups.

Employment opportunities and job recruitment have increased over fiscal 1997/98 as a result of expanded gaming initiatives.

Objective:

To seek to ensure that every employee is valued, professionally fulfilled and feels that they play an integral role in the success of the Corporation

Result:

BCLC measures the effectiveness of its employee relations practices. The employee turnover rate of permanent full-time employees leaving the Corporation was 4.16 per cent in fiscal 1998/99.

Labour costs represent the Corporation's largest administrative expenditure. Absenteeism, which includes sick days and short-term disability only, is a measure of the Corporation's productivity. At 1.85 per cent, BCLC continues to maintain a very low level of absenteeism.

Auditors' Report

To the Directors of British Columbia Lottery Corporation:

We have audited the consolidated balance sheet of British Columbia Lottery Corporation as at March 31, 1999 and the consolidated statements of income, amounts due to Government of British Columbia, and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the Company Act, (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants
Kamloops, Canada
April 30, 1999

Consolidated Balance Sheet

ASSETS		
Cash:		
Prize funds	$ 64,822	$ 65,896
Other	33,085	5,922
	97,907	71,818
Accounts receivable (note 3)	25,822	20,132
Receivable from Interprovincial Lottery Corporation	710	–
Prepaid expenses	3,873	3,307
Capital assets (note 4)	35,441	41,491
	$ 163,753	**$ 136,748**
Prizes payable	$ 64,822	$ 65,896
Payable to Interprovincial Lottery Corporation	–	1,935
Accounts payable and accrued liabilities	21,761	27,623
Due to Government of British Columbia	75,410	41,294
Due to Government of Canada	1,760	–
	$ 163,753	**$ 136,748**

See accompanying notes to consolidated financial statements.

Approved:

Patrick Chen
Director

Jann L.M. Bailey
Director

Consolidated Statement of Income

(In thousands of dollars)	1999	1998
Revenues (note 5)	$ 1,261,494	$ 942,243
Direct expenses:		
Prizes (note 2d)	508,150	483,009
Retailer commissions	175,550	72,062
Ticket printing and bingo paper	15,396	16,354
	699,096	571,425
Revenues less direct expenses	562,398	370,818
Operating expenses:		
Advertising, draws and promotions	20,805	18,164
Data processing and network	23,587	20,700
Administration	25,143	17,454
Sales	5,990	5,853
Amortization	18,773	10,663
Less: Interest and other income	(5,089)	(5,007)
	89,209	67,827
Income from operations	**473,189**	**302,991**
GST expense	17,227	12,695
Net income	**$ 455,962**	**$ 290,296**
Allocation of net income:		
Government of British Columbia	$ 440,628	$ 279,269
Government of Canada (note 6)	6,998	6,874
Payments pursuant to ministerial direction (note 7)	4,958	4,153
Payments to British Columbia Charitable Gaming Funding Society	3,378	–
	$ 455,962	**$ 290,296**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Amounts Due to Government of British Columbia

For the Year Ended March 31, 1999

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(in thousands of dollars)	1999	1998
Balance, beginning of year	$ 41,294	$ 14,975
Net income	455,962	290,296
	497,256	305,271
Payments to Government of British Columbia	414,848	257,103
Allocation of income to Government of Canada	6,998	6,874
	421,846	263,977
Due to Government of British Columbia	**$ 75,410**	**$ 41,294**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

(IN THOUSANDS OF DOLLARS)	[illegible]	[illegible]
Operations:		
Net income	$ 455,962	$ 290,296
Amortization, which does not involve cash	18,773	10,663
	474,735	300,959
Changes in non-cash operating items:		
Accounts receivable	(5,690)	(6,327)
Prepaid expenses	(566)	397
Prizes payable	(1,074)	1,380
Receivable from/payable to Interprovincial Lottery Corporation	(2,645)	(442)
Accounts payable and accrued liabilities	(5,862)	13,323
Payable to Government of Canada	1,760	–
	460,658	309,290
Financing:		
Payments to Government of British Columbia	(414,848)	(257,103)
Allocation of income to Government of Canada	(6,998)	(6,874)
Reduction of long-term debt	–	(4,257)
	(421,846)	(268,234)
Investments:		
Additions to capital assets	(12,723)	(38,032)
	(12,723)	(38,032)
Increase in cash	26,089	3,024
Cash, beginning of year	71,818	68,794
Cash, end of year	**$ 97,907**	**$ 71,818**

See accompanying notes to consolidated financial statements.

British Columbia Lottery Corporation was incorporated under the Company Act of British Columbia on October 25, 1984, and is continued under the Lottery Corporation Act of British Columbia. The Corporation is an agent of the Crown.

The Province has designated the Corporation as the authority to conduct and manage lottery schemes within British Columbia and to co-operate in the conducting and marketing of national and regional lottery schemes with other Provinces of Canada.

The Corporation conducts and manages the following lottery schemes in British Columbia: DAILY 3, SCRATCH & WIN, BC/49, CLUB KENO, EXTRA, SPORTS ACTION, BREAKOPEN, STARSHIP BINGO, SUPERSTAR BINGO and casino games including slot machines and table games.

The Corporation is the regional marketing organization for the SPECIAL EVENT, LOTTO 6/49, LOTTO SUPER 7 and MEGA MILLIONS 2000 games in British Columbia. These games are joint undertakings by the provinces acting through the Interprovincial Lottery Corporation. The Interprovincial Lottery Corporation is incorporated under the Canada Business Corporations Act, and its shares are held by Her Majesty The Queen in right of the respective provinces.

(a) Basis of presentation:

(i) The financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles.

(ii) The consolidated financial statements include B.C. Lottotech International Inc., a wholly owned subsidiary of the British Columbia Lottery Corporation.

(b) Capital assets:

The Corporation's policy on capital purchases is that any major purchase which has a future useful life beyond the current year and which will materially affect income in the year purchased will be capitalized.

(b) Capital assets (continued):

The Corporation's capital assets are recorded at their original cost and are amortized on the straight-line basis over their estimated useful lives, as follows:

Asset	Rate
Building and leasehold improvements	5 years
Furniture and equipment	5 years
Computer equipment	3 years
Online gaming terminals	3 years
Breakopen vending machines	3 years
Signs and fixtures:	
Computer	3 years
Non-computer	5 years
Bingo equipment	3 years
Casino equipment	3 years

Amortization is prorated in the year the assets are put in use.

(c) Revenue recognition:

Lottery games:

Revenue from the sale of lottery tickets is included in the statement of income in the period the ticket is sold. The associated selling costs and prize expenses are also included in the statement of income in the period the ticket is sold.

Bingo games:

Revenue from the operation of electronic and linked Bingo is included in the statement of income in the same period the game is played. The associated selling costs and prize expenses are also included in the statement of income in the period the game is played.

Casinos:

Revenues from casino slot machines and table games are recorded on the statement of income, net of prizes paid out. Related operating costs are recorded in the statement of income in the period they are incurred.

(d) Prize expenses:

Lottery prize expenses are recorded based on the theoretical prize liability expected for each game. The actual expense incurred each year will vary from this estimate based on the nature of games of chance. Over a long period of time, it is expected that the actual prize expense will approximate the theoretical expense.

(e) Software development costs:

Software development costs are expensed in the period in which they are incurred.

(f) Estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(g) Income taxes:

As the Corporation is an agent of the Crown it is not subject to federal or provincial corporate income taxes or corporate capital taxes.

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(IN THOUSANDS OF DOLLARS)	1999	1998
Retailers	$ 23,535	$ 13,490
Other	2,287	6,642
	$ 25,822	$ 20,132

(IN THOUSANDS OF DOLLARS)	1999			1998
	Cost	Accumulated amortization	Net	Net
Land	$ 700	$ –	$ 700	$ 700
Building and leasehold improvements	23,248	21,982	1,266	1,618
Furniture and equipment	3,394	3,167	227	160
Central system computer	21,919	20,231	1,688	2,152
Online gaming terminals	35,483	32,372	3,111	7,358
Breakopen vending machines	7,587	6,131	1,456	1,529
Signs and fixtures	4,357	3,800	557	535
Bingo equipment	11,219	4,021	7,198	4,865
Casino equipment	26,969	7,731	19,238	22,574
	$134,876	$ 99,435	$ 35,441	$ 41,491

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(IN THOUSANDS OF DOLLARS)	1999	1998
Lottery:		
LOTTO 6/49	$ 249,141	$ 233,437
SCRATCH & WIN	176,587	179,962
CLUB KENO	173,674	166,067
BREAKOPEN	115,793	132,420
BC/49	85,618	83,305
EXTRA	63,402	56,303
SPORT LOTTERY	22,782	22,535
LOTTO SUPER 7	12,940	–
DAILY 3	4,740	4,812
SPECIAL EVENT	5,981	4,542
	910,658	883,383
Casinos:		
Slot machines	146,772	40,746
Table games	161,365	–
	308,137	40,746
Bingo:		
SUPERSTAR BINGO	18,972	10,085
STARSHIP BINGO	20,348	4,142
Paper	3,379	3,887
	42,699	18,114
	$1,261,494	**$ 942,243**

4. PAYMENTS TO GOVERNMENT OF CANADA

The Interprovincial Lottery Corporation (I.L.C.) makes inflation-adjusted payments to the Government of Canada as a result of an agreement between the provincial governments and the Government of Canada on the withdrawal of the Government of Canada from the lottery field. The Corporation remits British Columbia's share of the above payments to I.L.C. Payments under this agreement are estimated to be $7.0 million for the next fiscal year ending March 31, 2000.

5. PAYMENTS PURSUANT TO MINISTERIAL DIRECTION

Pursuant to Section 22 of the Financial Administration Act, the Ministry of Employment and Investment has directed the Corporation to pay for the Problem Gambling Program costs administered by the Ministry of Human Resources and Ministry for Children and Families and the costs of the Gaming Policy Secretariat.

E. INTERPROVINCIAL LOTTERY CORPORATION AND INTERIM FUNDS

The Corporation's share of the Interprovincial Lottery Corporation prize and ticket printing costs for national games is recognized in the appropriate category of direct expenses. The Corporation's share of the I.L.C.'s interest income less operating expenses is included in interest and other income.

F. LEASE OBLIGATIONS

The Corporation is committed to payments under operating leases for premises. Minimum annual rental payments for the next four years are approximately as follows:

2000	$1,465	2002	$ 426
2001	$ 672	2003	$ 289

G. PENSION PLANS

An actuarial valuation was made as of March 31, 1997 by William M. Mercer Ltd., a firm of consulting actuaries, and was then extrapolated to March 31, 1999. The market value of pension plan assets as at March 31, 1999 is approximately $28.1 million (1998 - $26.8 million) and the actuarial present value of accrued pension benefits for services rendered to March 31, 1999 is approximately $22.1 million (1998 - $19.5 million), resulting in a net surplus of $6.0 million (1998 - $7.3 million).
The cost of the deferred benefit plans reflects management's best estimates of the pension plans' expected investment yields, salary escalations, mortality of members, terminations and the ages at which members will retire, and is therefore subject to measurement uncertainty.

H. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying value of accounts receivable, prizes payable, due to the Interprovincial Lottery Corporation, accounts payable and accrued liabilities and due to Government of British Columbia approximate their fair value due to the relatively short periods to maturity of the instruments.

I. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect a Company's ability to conduct normal business operations. The Corporation has developed and implemented a process designed to mitigate the expected effects of the Year 2000 Issue on the Corporation. As at March 31, 1999, the identification and assessment phases of the Year 2000 process, which address the Year 2000 readiness of the Corporation's computer systems, and of third parties, such as customers, suppliers and others, are ongoing. The Corporation has commenced the remediation phase, which is intended to modify, retire or replace computer systems identified to date which are not Year 2000 ready. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

The Corporation

British Columbia Lottery Corporation is a Crown corporation. The Corporation reports to the Minister responsible for British Columbia Lottery Corporation through a Board of Directors appointed by the Government of British Columbia.

Chair

Patrick Chen

Vice-Chair

Hoshiar Gosal

Directors

Jann L.M. Bailey
Pietro Calendino, MLA
J.F. Raymond Chouinard
Marylou Curtis
Diane Ferleyko
Kenneth H. Isomura
Lloyd Munro

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